

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

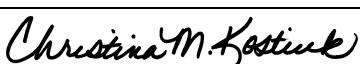
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **City of Memphis, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2006**

# City of Memphis, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and Members  
of the City Council  
City of Memphis, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Memphis' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Memphis as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and Members  
of the City Council  
City of Memphis, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Memphis' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

July 18, 2006

# City of Memphis, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Memphis, Michigan's financial performance provide an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Memphis on a government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than government-wide financial statements.

### The City of Memphis as a Whole

In a condensed format, the table below shows the comparison of net assets as of June 30, 2006 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 747,000	\$ 625,000	\$ 405,000	\$ 576,000	\$ 1,152,000	\$ 1,201,000
Noncurrent assets	1,109,000	1,143,000	1,726,000	1,571,000	2,835,000	2,714,000
Total assets	1,856,000	1,768,000	2,131,000	2,147,000	3,987,000	3,915,000
<b>Liabilities</b>						
Current liabilities	49,000	54,000	87,000	89,000	136,000	143,000
Long-term liabilities	139,000	130,000	668,000	752,000	807,000	882,000
Total liabilities	188,000	184,000	755,000	841,000	943,000	1,025,000
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	1,005,000	1,049,000	974,000	741,000	1,979,000	1,790,000
Restricted	199,000	158,000	-	-	199,000	158,000
Unrestricted	464,000	377,000	402,000	565,000	866,000	942,000
Total net assets	<u>\$ 1,668,000</u>	<u>\$ 1,584,000</u>	<u>\$ 1,376,000</u>	<u>\$ 1,306,000</u>	<u>\$ 3,044,000</u>	<u>\$ 2,890,000</u>

# City of Memphis, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net assets increased 5.3 percent from a year ago, increasing from \$2,890,000 to \$3,044,000. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$84,000 in net assets or 5.3 percent during the fiscal year ended June 30, 2006. This increase was the result of increased revenue from various sources, including investment income, property taxes, and charges for services. The business-type activities, consisting of the City's Water and Sewer Fund, experienced a 5.4 percent increase in net assets, rising from \$1,306,000 to \$1,376,000. This increase was primarily due to positive results from operations during the year.

Unrestricted net assets for the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, totaled \$464,000 at June 30, 2006, as compared with \$377,000 in the prior year. The increase in unrestricted net assets is attributed to the positive operating results.

The following table shows a comparison of changes in net assets for the year ended June 30, 2006 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 160,000	\$ 146,000	\$ 329,000	\$ 340,000	\$ 489,000	\$ 486,000
Operating grants and contributions	83,000	85,000	-	-	83,000	85,000
Capital grants and contributions	25,000	269,000	-	-	25,000	269,000
General revenues:						
Property taxes	373,000	365,000	-	-	373,000	365,000
State-shared revenues	115,000	116,000	-	-	115,000	116,000
Cable franchise fees	5,000	5,000	-	-	5,000	5,000
Investment earnings	25,000	10,000	19,000	10,000	44,000	20,000
Miscellaneous	15,000	23,000	-	-	15,000	23,000
Transfers	(20,000)	-	20,000	-	-	-
Loss on disposal of assets	(4,000)	-	-	-	(4,000)	-
Total revenue	777,000	1,019,000	368,000	350,000	1,145,000	1,369,000
<b>Program Expenses</b>						
General government	146,000	149,000	-	-	146,000	149,000
Public safety	352,000	339,000	-	-	352,000	339,000
Public works	157,000	206,000	-	-	157,000	206,000
Recreation and culture	33,000	37,000	-	-	33,000	37,000
Interest on long-term debt	5,000	5,000	-	-	5,000	5,000
Water and sewer	-	-	298,000	282,000	298,000	282,000
Total program expenses	693,000	736,000	298,000	282,000	991,000	1,018,000
<b>Change in Net Assets</b>	84,000	283,000	70,000	68,000	154,000	351,000
<b>Net Assets - Beginning of year</b>	1,584,000	1,301,000	1,306,000	1,238,000	2,890,000	2,539,000
<b>Net Assets - End of year</b>	<b>\$ 1,668,000</b>	<b>\$ 1,584,000</b>	<b>\$ 1,376,000</b>	<b>\$ 1,306,000</b>	<b>\$ 3,044,000</b>	<b>\$ 2,890,000</b>

# **City of Memphis, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

Revenues for the City's governmental activities totaled approximately \$777,000. These revenue funds were utilized to provide essential City services including public safety, public works, library, and recreation activities.

Public safety (police and fire department) expenditures accounted for 51 percent of the governmental activities operational expenditures for the year ended June 30, 2006. The general government expenditures accounted for 21 percent of the operating costs of the governmental activities.

During 2006, capital improvements in the governmental activities totaled approximately \$86,000, including vehicle purchases of \$44,000, road construction costs of \$30,000, and machinery and equipment purchases of \$12,000.

### **Business-type Activities**

The City's business-type activities represent the Water and Sewer Enterprise Fund. The City provides water and sewer services to most, but not all, residents. Water and Sewer charges for services totaled \$329,000 for the fiscal year ended June 30, 2006. Included in this amount are debt service fees totaling \$131,000 that are used to pay the principal and interest on the outstanding 1991 Water Bonds and the 2004 Water Treatment Installment Note. The Water and Sewer Fund experienced an increase in net assets of \$70,000 during 2006.

### **The City's Funds**

Our analysis of the City's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local street revenue sharing. The City's major funds for 2006 include the General Fund, the Major Street Fund, and the Water and Sewer Fund.

The General Fund accounts for the majority of the City's governmental day-to-day services. The most significant of these are public safety (police and fire), which incurred expenditures of approximately \$340,000 in 2006. The general operating millage levied by the City supports these services. The Major Street Fund is used to account for maintenance and construction expenditures for streets designated as "major." Most of the activity in this fund is financed by State of Michigan Act 51 revenue sharing.



# **City of Memphis, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. During 2006, the General Fund budget was amended to account for the receipt of salvage inspection revenue and capital outlay activity.

### **Capital Asset and Debt Administration**

As of June 30, 2006, the City had \$2,835,000 invested in a wide range of capital assets, including land, buildings, vehicles, fire equipment, computer equipment, water and sewer lines, and infrastructure assets, which include roads, sidewalks, and related assets. Total outlays for governmental infrastructure assets were \$30,000 in 2006. As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets acquired prior to July 1, 2003.

At June 30, 2006, the City has outstanding debt totaling \$104,000 and \$752,000 in the governmental activities and business-type activities, respectively, related to the acquisition of capital assets. The debt is payable through 2014. In addition, the City has \$53,000 of compensated absences reported in the governmental activities, representing accumulated sick leave. There was a new installment purchase obligation during 2006 of \$29,000 related to the acquisition of a police vehicle.

### **Economic Factors and Next Year's Budgets and Rates**

The City of Memphis, similar to most municipalities in the state of Michigan, continues to experience difficult financial times. The City currently levies the maximum amount of property taxes allowed under Proposal A and the Headlee Amendment, and has experienced reductions in state-shared revenue in recent years. While little or no growth has been experienced in revenues, most expenditures continue to grow at the rate of inflation or higher (in the case of health insurance expenditures). The City has responded to this imbalance between revenue and expenditures through a reduction of discretionary costs, principally capital outlay. The City expects this financial trend to continue into the near future.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the administrative offices at city hall.

# City of Memphis, Michigan

## Statement of Net Assets June 30, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 683,999	\$ 285,870	\$ 969,869
Receivables:			
Accounts	15,872	87,612	103,484
State of Michigan	52,996	-	52,996
Intergovernmental	25,500	1,500	27,000
Internal balances (Note 5)	(30,000)	30,000	-
Capital assets (Note 4):			
Assets not depreciated	38,000	11,355	49,355
Assets being depreciated - Net	<u>1,070,769</u>	<u>1,714,854</u>	<u>2,785,623</u>
Total assets	1,857,136	2,131,191	3,988,327
<b>Liabilities</b>			
Accounts payable and accrued liabilities	31,223	3,257	34,480
Noncurrent liabilities (Note 7):			
Due within one year	17,708	83,806	101,514
Due in more than one year	<u>139,479</u>	<u>668,491</u>	<u>807,970</u>
Total liabilities	<u>188,410</u>	<u>755,554</u>	<u>943,964</u>
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	1,004,762	973,912	1,978,674
Restricted:			
Streets	196,609	-	196,609
Salvage	2,964	-	2,964
Unrestricted	<u>464,391</u>	<u>401,725</u>	<u>866,116</u>
Total net assets	<u>\$ 1,668,726</u>	<u>\$ 1,375,637</u>	<u>\$ 3,044,363</u>

# City of Memphis, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 145,754	\$ 13,392	\$ -	\$ -
Public safety	351,431	97,237	-	-
Public works	157,434	40,248	83,145	25,500
Recreation and culture	33,342	8,801	-	-
Interest on long-term debt	4,929	-	-	-
Total governmental activities	692,890	159,678	83,145	25,500
Business-type activities - Water and sewer	298,278	329,304	-	-
Total primary government	<u>\$ 991,168</u>	<u>\$ 488,982</u>	<u>\$ 83,145</u>	<u>\$ 25,500</u>
General revenues:				
Property taxes				
State-shared revenues				
Cable franchise fees				
Investment earnings				
Miscellaneous				
Transfers				
Loss on disposal of assets				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - July 1, 2005</b>				
<b>Net Assets - June 30, 2006</b>				

**Statement of Activities**  
**Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (132,362)	\$ -	\$ (132,362)
(254,194)	-	(254,194)
(8,541)	-	(8,541)
(24,541)	-	(24,541)
<u>(4,929)</u>	<u>-</u>	<u>(4,929)</u>
(424,567)	-	(424,567)
<u>-</u>	<u>31,026</u>	<u>31,026</u>
(424,567)	31,026	(393,541)
372,743	-	372,743
114,829	-	114,829
5,275	-	5,275
24,676	18,659	43,335
15,232	-	15,232
(19,633)	19,633	-
<u>(4,115)</u>	<u>-</u>	<u>(4,115)</u>
<u>509,007</u>	<u>38,292</u>	<u>547,299</u>
84,440	69,318	153,758
<u>1,584,286</u>	<u>1,306,319</u>	<u>2,890,605</u>
<b><u>\$ 1,668,726</u></b>	<b><u>\$ 1,375,637</u></b>	<b><u>\$ 3,044,363</u></b>

# City of Memphis, Michigan

## Governmental Funds Balance Sheet June 30, 2006

	General Fund	Major Special Revenue Fund - Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 361,791	\$ 118,645	\$ 203,563	\$ 683,999
Receivables:				
Accounts	15,872	-	-	15,872
State of Michigan	46,543	4,935	1,518	52,996
Intergovernmental	25,500	-	-	25,500
Total assets	<u>\$ 449,706</u>	<u>\$ 123,580</u>	<u>\$ 205,081</u>	<u>\$ 778,367</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 26,338	\$ 362	\$ 253	\$ 26,953
Deferred revenue (Note 6)	47,564	-	-	47,564
Due to other funds (Note 5)	30,000	-	-	30,000
Total liabilities	103,902	362	253	104,517
<b>Fund Balances</b>				
Reserved for salvage	2,964	-	-	2,964
Unreserved and undesignated	342,840	123,218	-	466,058
Unreserved - Reported in Special Revenue Funds	-	-	204,828	204,828
Total fund balances	<u>345,804</u>	<u>123,218</u>	<u>204,828</u>	<u>673,850</u>
Total liabilities and fund balances	<u>\$ 449,706</u>	<u>\$ 123,580</u>	<u>\$ 205,081</u>	<u>\$ 778,367</u>

# City of Memphis, Michigan

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## **Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2006**

<b>Total Fund Balances of Governmental Funds</b>	<b>\$ 673,850</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	1,108,769
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State revenue-sharing and other receivables collected more than 30 days after year end are not available to pay for current year expenditures	47,564
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Notes and bonds payable	(104,007)
Compensated absences	(53,180)

Accrued interest payable is not included as a liability in the governmental funds	<u>(4,270)</u>
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<b>Net Assets of Governmental Activities</b>	<b><u>\$ 1,668,726</u></b>
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# City of Memphis, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Major Special Revenue Fund - Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Property taxes	\$ 372,743	\$ -	\$ -	\$ 372,743
Federal sources	29,642	-	-	29,642
State sources	120,153	60,822	18,710	199,685
Charges for services	164,048	-	-	164,048
Interest and other	55,598	3,323	6,093	65,014
Total revenue	742,184	64,145	24,803	831,132
<b>Expenditures</b>				
General government:				
Administration	104,078	-	-	104,078
Assessment	6,195	-	-	6,195
Board of Review	975	-	-	975
Community center	6,135	-	-	6,135
City Hall	7,760	-	-	7,760
Planning Commission	1,083	-	-	1,083
Recordkeeping	-	6,157	2,210	8,367
Total general government	126,226	6,157	2,210	134,593
Public safety:				
Police department	271,480	-	-	271,480
Fire department	84,965	-	-	84,965
Fire hydrants	9,660	-	-	9,660
Ambulance service	2,750	-	-	2,750
Total public safety	368,855	-	-	368,855
Public works:				
Department of public works	89,250	-	-	89,250
Street lighting	18,223	-	-	18,223
Refuse collection	40,711	-	-	40,711
Routine maintenance	-	14,000	10,618	24,618
Traffic services	-	1,943	83	2,026
Winter maintenance	-	4,605	4,541	9,146
Total public works	148,184	20,548	15,242	183,974

# City of Memphis, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Continued) Year Ended June 30, 2006

	General Fund	Major Special Revenue Fund - Major Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Expenditures (Continued)</b>				
Recreation and cultural:				
Library	\$ 23,553	\$ -	\$ -	\$ 23,553
Recreation department	16,139	-	-	16,139
Total recreation and cultural	39,692	-	-	39,692
Total expenditures	682,957	26,705	17,452	727,114
<b>Excess of Revenue Over Expenditures</b>	59,227	37,440	7,351	104,018
<b>Other Financing Sources (Uses)</b>				
Proceeds from disposal of assets	28,188	-	-	28,188
Proceeds from installment purchase	28,581	-	-	28,581
Transfers in (Note 5)	24,738	-	88,477	113,215
Transfers out (Note 5)	(93,110)	(15,000)	(24,738)	(132,848)
Total other financing sources (uses)	(11,603)	(15,000)	63,739	37,136
<b>Net Change in Fund Balances</b>	47,624	22,440	71,090	141,154
<b>Fund Balances - Beginning of year</b>	298,180	100,778	133,738	532,696
<b>Fund Balances - End of year</b>	<u>\$ 345,804</u>	<u>\$ 123,218</u>	<u>\$ 204,828</u>	<u>\$ 673,850</u>



# City of Memphis, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006**

<b>Net Change in Fund Balances of Governmental Funds</b>	<b>\$ 141,154</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (87,544)	
Capital outlay	<u>86,034</u>	(1,510)

Loss on disposal of assets	(32,303)
----------------------------	----------

Revenue is recorded in the statement of activities at the time it is earned, without regard to timeliness of collection	(3,927)
---	---------

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	416
--	-----

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	18,472
---	--------

Debt proceeds are not reported as financing sources on the statement of activities	(28,581)
--	----------

Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(9,281)</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 84,440</u></b>
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# City of Memphis, Michigan

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## Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Net Assets June 30, 2006

### Assets

#### Current assets:

Cash and cash equivalents (Note 3)	\$ 285,870
Accounts receivable	87,612
Due from other governmental units	1,500
Due from other funds (Note 5)	<u>30,000</u>

Total current assets 404,982

Noncurrent assets - Capital assets - Net (Note 4) 1,726,209

Total assets 2,131,191

### Liabilities

#### Current liabilities:

Accounts payable and accrued liabilities	3,257
Current portion of long-term debt (Note 7)	<u>83,806</u>

Total current liabilities 87,063

Long-term debt - Net of current portion (Note 7) 668,491

Total liabilities 755,554

### Net Assets

Invested in capital assets - Net of related debt	973,912
Unrestricted	<u>401,725</u>

Total net assets \$ 1,375,637

# City of Memphis, Michigan

## **Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2006**

### **Operating Revenue**

Water sales	\$ 105,242
Sewage disposal	82,917
Other	<u>7,556</u>
Total operating revenue	195,715

### **Operating Expenses**

Wages	125,592
Supplies	1,269
Utilities	13,399
Repairs and maintenance	18,032
Equipment rental	13,315
Training and education	639
Contracted services	18,099
Insurance	2,333
Depreciation	50,704
Miscellaneous	<u>1,605</u>
Total operating expenses	<u>244,987</u>

**Operating Loss** (49,272)

### **Nonoperating Revenue (Expenses)**

Interest earned	18,659
Interest expense	(52,891)
Tap fees	2,553
Paying agent fees	(400)
Debt service fees	<u>131,036</u>
Total nonoperating revenue	98,957

**Other Financing Sources - Transfers in** 19,633

**Change in Net Assets** 69,318

**Net Assets - Beginning of year** 1,306,319

**Net Assets - End of year** \$ 1,375,637

# City of Memphis, Michigan

## Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2006

### Cash Flows from Operating Activities

Receipts from customers	\$ 195,896
Payments to other suppliers and employees	<u>(203,262)</u>
Net cash used in operating activities	(7,366)

### Cash Flows from Noncapital Financing Activities

Loans made to other funds	(7,890)
Operating transfers in	19,633
Payments received on loans to other funds	<u>29,642</u>
Net cash provided by noncapital financing activities	41,385

### Cash Flows from Capital and Related Financing Activities

Principal and interest paid on capital debt	(130,993)
Purchase of capital assets	(312,170)
Collection of debt service fees	131,036
Collection of tap fees	<u>2,552</u>
Net cash used in capital and related financing activities	(309,575)

**Cash Flows from Investing Activities** - Interest received on investments 18,659

**Net Decrease in Cash and Cash Equivalents** (256,897)

**Cash and Cash Equivalents** - Beginning of year 542,767

**Cash and Cash Equivalents** - End of year \$ 285,870

### Reconciliation of Operating Loss to Net Cash from Operating Activities

Operating loss	\$ (49,272)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	50,704
Changes in assets and liabilities:	
Receivables	(1,319)
Accounts payable and accrued liabilities	<u>(7,479)</u>
Net cash used in operating activities	<u><u>\$ (7,366)</u></u>

# City of Memphis, Michigan

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## **Fiduciary Fund - Agency Fund Statement of Assets and Liabilities June 30, 2006**

<b>Assets</b> - Cash and cash equivalents (Note 3)	<u><u>\$ 6,542</u></u>
<b>Liabilities</b> - Due to other governmental units	<u><u>\$ 6,542</u></u>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the City of Memphis (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds and major Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Major Street Fund** - The Major Street Fund accounts for the development of major roads and related construction and administrative expenses.

The City reports the following major Enterprise Fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

#### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Residual balances outstanding between the governmental activities and the business-type activities, if any, are reported in the government-wide financial statements as "internal balances."

**Property Taxes** - Properties are assessed as of December 31 and the related property taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31 with a final collection date of February 28 before they are added to the county tax rolls.

The 2005 taxable valuation of the City totaled \$24,943,000, on which ad valorem taxes levied consisted of 14.8019 mills for City operating purposes. The ad valorem taxes levied raised \$369,000 for City operations.



### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, utility systems, etc.), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Roads and sidewalks	20 years
Utility systems	50 to 70 years
Buildings and building improvements	20 to 50 years
Machinery and equipment	10 to 30 years
Vehicles	10 to 20 years

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused sick pay benefits. All sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when due for payment (generally for employee terminations as of year end).

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

# City of Memphis, Michigan

## Notes to Financial Statements June 30, 2006

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Budgets for the fiscal year commencing July 1 are prepared by the City clerk/treasurer and adopted by the City Council.

The budget document presents information by fund, activity, and line item. The legal level of budgetary control adopted by the City Council is the activity level. Budget amendments were not significant during the year.

Amounts encumbered for purchase orders, contracts, and other commitments are not tracked during the year. Budget appropriations are considered to be spent only when an expenditure has been recognized (i.e., when goods are received or services are rendered).

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amount budgeted for transfers out in the General Fund due to the availability of excess unrestricted resources. Actual transfers totaled \$93,220 compared to the amended budget of \$52,490. In addition, police department expenditures of \$271,480 exceeded the amended budget of \$233,776 due to capital outlay expenditures which were offset by proceeds from an installment purchase obligation.

**State Construction Code Act** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative expenditures over revenue - July 1, 2005	\$ (9,887)
2005-2006 building department activity:	
Permit revenue	\$ 4,164
Expenditures	<u>(7,498)</u>
Excess of expenditures over revenue	<u>(3,334)</u>
Cumulative expenditures over revenue - June 30, 2006	<u>\$ (13,221)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of its funds. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the bank balance of the City's bank deposits (checking accounts) was \$95,933, all of which is covered by federal depository insurance.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Bank investment pool	\$ 81,915	30 days

# City of Memphis, Michigan

## Notes to Financial Statements June 30, 2006

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 81,915	Aaa	Moody's
Bank investment pool	821,497	Not rated	N/A

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities:				
Capital assets not being depreciated - Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Capital assets being depreciated:				
Roads and sidewalks	317,731	29,642	-	347,373
Vehicles	478,798	43,997	(57,718)	465,077
Buildings	437,377	-	-	437,377
Machinery and equipment	502,893	12,395	(5,640)	509,648
Subtotal	1,736,799	86,034	(63,358)	1,759,475
Accumulated depreciation:				
Roads and sidewalks	12,798	15,887	-	28,685
Vehicles	191,248	26,283	(25,415)	192,116
Buildings	211,229	10,049	-	221,278
Machinery and equipment	216,942	35,325	(5,640)	246,627
Subtotal	632,217	87,544	(31,055)	688,706
Net capital assets being depreciated	1,104,582	(1,510)	(32,303)	1,070,769
Net capital assets	\$ 1,142,582	\$ (1,510)	\$ (32,303)	\$ 1,108,769

# City of Memphis, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 11,355	\$ -	\$ -	\$ 11,355
Construction in progress	50,323	-	50,323	-
Subtotal	61,678	-	50,323	11,355
Capital assets being depreciated:				
Utility system	1,856,064	362,493	-	2,218,557
Buildings and improvements	175,106	-	-	175,106
Machinery and equipment	177,982	-	-	177,982
Subtotal	2,209,152	362,493	-	2,571,645
Accumulated depreciation:				
Utility system	572,357	39,102	-	611,459
Buildings and improvements	105,742	2,814	-	108,556
Machinery and equipment	127,988	8,788	-	136,776
Subtotal	806,087	50,704	-	856,791
Net capital assets being depreciated	1,403,065	311,789	-	1,714,854
Net capital assets	\$ 1,464,743	\$ 311,789	\$ 50,323	\$ 1,726,209

Depreciation expense was charged to programs of the governmental activities as follows:

General government	\$ 7,390
Public safety	46,736
Public works	26,056
Recreation and culture	7,362
Total governmental activities	\$ 87,544

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows at June 30, 2006:

Receivable Fund	Payable Fund	Amount
Water and Sewer Fund	General Fund	\$ 30,000

# City of Memphis, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances resulted from a loan that was made from the Water and Sewer Fund to the General Fund to cover construction costs until grant funding becomes available.

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out			Total
	General Fund	Major Street Fund	Nonmajor Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ -	\$ 24,738	\$ 24,738
Nonmajor governmental funds	73,477	15,000	-	88,477
Water and Sewer Fund	19,633	-	-	19,633
Total	<u>\$ 93,110</u>	<u>\$ 15,000</u>	<u>\$ 24,738</u>	<u>\$ 132,848</u>

The transfer out from the Major Street Fund represents a transfer of Act 51 revenue to the Local Street Fund.

The remaining transfers represent discretionary funds to be used for capital improvements. Transfers out from the General Fund are to the various department equipment and replacement funds for future purposes. Transfers in to the General Fund are from the various department equipment and replacement funds for capital outlay expenditures made in the current period.

# City of Memphis, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2006, the components of deferred revenue are as follows:

	Unavailable	Unearned
State revenue-sharing and federal grant payments not received until more than 30 days after year end	\$ 47,564	\$ -

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

Long-term debt activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
Installment purchase agreement - 2001 Library acquisition:							
Amount of issue - \$154,000		\$7,392 -					
Maturing through 2014	5.70%	\$12,963	\$ 93,898	\$ -	\$ 8,367	\$ 85,531	\$ 8,748
Installment purchase agreement - 2006 Police vehicle acquisition:							
Amount of issue - \$28,581		\$8,960 -					
Maturing through 2008	6.20%	\$10,105	-	28,581	10,105	18,476	8,960
Accrued compensated absences	-	-	43,899	9,281	-	53,180	-
Total governmental activities			\$ 137,797	\$ 37,862	\$ 18,472	\$ 157,187	\$ 17,708
Business-type activities:							
1991 General Obligation Water Bonds - Water and Sewer Fund Bonds:							
Amount of Issue - \$995,000	6.50% -	\$40,000 -					
Maturing through 2014	7.00%	\$90,000	\$ 680,000	\$ -	\$ 50,000	\$ 630,000	\$ 55,000
Installment purchase note - 2004 Water Treatment:							
Amount of issue - \$150,000		\$27,703-					
Maturing through 2009	3.99%	\$32,386	150,000	-	27,703	122,297	28,806
Total business-type activities			\$ 830,000	\$ -	\$ 77,703	\$ 752,297	\$ 83,806

# City of Memphis, Michigan

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 17,708	\$ 4,964	\$ 22,672	\$ 83,806	\$ 48,438	\$ 132,244
2008	18,770	4,458	23,228	94,956	43,576	138,532
2009	9,778	3,934	13,712	101,151	37,961	139,112
2010	10,354	3,358	13,712	112,384	31,929	144,313
2011	10,952	2,760	13,712	90,000	25,110	115,110
2012-2015	36,445	4,337	40,782	270,000	37,756	307,756
Total	\$ 104,007	\$ 23,811	\$ 127,818	\$ 752,297	\$ 224,770	\$ 977,067

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and general liability and participates in the Michigan Municipal League Risk Pool for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 9 - Retirement Plan

The City offers a SEP IRA defined contribution retirement plan to all full-time employees with at least one year of service time. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by City Council resolution, the City contributes 4 percent of covered payroll to the plan and contributions totaled approximately \$8,300 for the year ended June 30, 2006. Employees have the option to contribute to the plan, but no employees elected to contribute for the year ended June 30, 2006.



## **Required Supplemental Information**

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# City of Memphis, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 371,325	\$ 371,325	\$ 372,743	\$ 1,418
Federal sources	32,142	29,642	29,642	-
State sources	121,829	121,829	120,153	(1,676)
Charges for services	154,946	155,519	164,048	8,529
Interest and other	27,231	32,943	55,598	22,655
Total revenue	707,473	711,258	742,184	30,926
<b>Expenditures</b>				
General government:				
Administration	111,849	113,022	104,078	8,944
Assessment	6,450	6,450	6,195	255
Board of Review	750	750	975	(225)
Community center	4,995	4,995	6,135	(1,140)
City Hall	9,583	9,583	7,760	1,823
Planning Commission	1,230	1,230	1,083	147
Total general government	134,857	136,030	126,226	9,804
Public safety:				
Police department	200,264	233,776	271,480	(37,704)
Fire department	81,375	89,375	84,965	4,410
Fire hydrants	9,520	9,520	9,660	(140)
Ambulance service	2,750	2,750	2,750	-
Total public safety	293,909	335,421	368,855	(33,434)
Public works:				
Department of Public Works	98,465	98,465	89,250	9,215
Community Development Block Grant	32,142	29,642	-	29,642
Street lighting	18,300	18,300	18,223	77
Refuse collection	40,850	40,850	40,711	139
Total public works	189,757	187,257	148,184	39,073
Recreation and cultural:				
Library	22,487	22,825	23,553	(728)
Recreation department	13,973	13,973	16,139	(2,166)
Total recreation and cultural	36,460	36,798	39,692	(2,894)
Total expenditures	654,983	695,506	682,957	12,549
<b>Excess of Revenue Over Expenditures</b>	52,490	15,752	59,227	43,475
<b>Other Financing Sources (Uses)</b>				
Proceeds from disposal of assets	-	-	28,188	28,188
Proceeds from installment purchase	-	-	28,581	28,581
Transfers in	-	32,738	24,738	(8,000)
Transfers out	(52,490)	(52,490)	(93,110)	(40,620)
Total other financing uses	(52,490)	(19,752)	(11,603)	8,149
<b>Net Change in Fund Balance</b>	-	(4,000)	47,624	51,624
<b>Fund Balance - Beginning of year</b>	298,180	298,180	298,180	-
<b>Fund Balance - End of year</b>	<u>\$ 298,180</u>	<u>\$ 294,180</u>	<u>\$ 345,804</u>	<u>\$ 51,624</u>

# City of Memphis, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2006

	Original and Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>			
State sources	\$ 64,161	\$ 60,822	\$ (3,339)
Interest and rent	<u>600</u>	<u>3,323</u>	<u>2,723</u>
Total revenue	64,761	64,145	(616)
<b>Expenditures</b>			
General government - Recordkeeping	6,072	6,157	(85)
Public works:			
Construction	10,008	-	10,008
Routine maintenance	22,406	14,000	8,406
Traffic services	3,800	1,943	1,857
Winter maintenance	<u>7,475</u>	<u>4,605</u>	<u>2,870</u>
Total public works	<u>43,689</u>	<u>20,548</u>	<u>23,141</u>
Total expenditures	<u>49,761</u>	<u>26,705</u>	<u>23,056</u>
<b>Excess of Revenue Over Expenditures</b>	15,000	37,440	22,440
<b>Other Uses</b> - Transfer out	<u>(15,000)</u>	<u>(15,000)</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	-	22,440	22,440
<b>Fund Balance</b> - Beginning of year	<u>100,778</u>	<u>100,778</u>	<u>-</u>
<b>Fund Balance</b> - End of year	<u>\$ 100,778</u>	<u>\$ 123,218</u>	<u>\$ 22,440</u>

## **Other Supplemental Information**

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# City of Memphis, Michigan

	Special Revenue				
	Local Street	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement	Clerk/Treasurer Equipment and Replacement
<b>Assets</b>					
Cash and cash equivalents	\$ 72,126	\$ 26,579	\$ 91,796	\$ 9,924	\$ 1,084
Receivables - State of Michigan	<u>1,518</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<b><u>\$ 73,644</u></b>	<b><u>\$ 26,579</u></b>	<b><u>\$ 91,796</u></b>	<b><u>\$ 9,924</u></b>	<b><u>\$ 1,084</u></b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b> - Accounts payable and accrued liabilities	\$ 253	\$ -	\$ -	\$ -	\$ -
<b>Fund Balances</b> - Unreserved	<u>73,391</u>	<u>26,579</u>	<u>91,796</u>	<u>9,924</u>	<u>1,084</u>
Total liabilities and fund balances	<b><u>\$ 73,644</u></b>	<b><u>\$ 26,579</u></b>	<b><u>\$ 91,796</u></b>	<b><u>\$ 9,924</u></b>	<b><u>\$ 1,084</u></b>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006**

<u>Funds</u>		
<u>Library Equipment and Replacement</u>	<u>Total Nonmajor Governmental Funds</u>	
\$ 2,054	\$ 203,563	
-	1,518	
<u>\$ 2,054</u>	<u>\$ 205,081</u>	
\$ -	\$ 253	
<u>2,054</u>	<u>204,828</u>	
<u>\$ 2,054</u>	<u>\$ 205,081</u>	

# City of Memphis, Michigan

	Special Revenue				
	Local Roads	Police Equipment and Replacement	Fire Equipment and Replacement	DPW Equipment and Replacement	Clerk/Treasurer Equipment and Replacement
<b>Revenue</b>					
State sources	\$ 18,710	\$ -	\$ -	\$ -	\$ -
Interest and other	2,103	692	2,875	340	29
Total revenue	20,813	692	2,875	340	29
<b>Expenditures</b>					
General government - Recordkeeping	2,210	-	-	-	-
Public works:					
Routine maintenance	10,618	-	-	-	-
Traffic services	83	-	-	-	-
Winter maintenance	4,541	-	-	-	-
Total public works	15,242	-	-	-	-
Total expenditures	17,452	-	-	-	-
<b>Excess of Revenue Over Expenditures</b>	3,361	692	2,875	340	29
<b>Other Financing Sources (Uses)</b>					
Transfers in	15,000	34,503	26,974	9,000	1,000
Transfers out	-	(24,738)	-	-	-
Total other financing sources	15,000	9,765	26,974	9,000	1,000
<b>Net Change in Fund Balances</b>	18,361	10,457	29,849	9,340	1,029
<b>Fund Balances - Beginning of year</b>	55,030	16,122	61,947	584	55
<b>Fund Balances - End of year</b>	<b>\$ 73,391</b>	<b>\$ 26,579</b>	<b>\$ 91,796</b>	<b>\$ 9,924</b>	<b>\$ 1,084</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2006**

Funds		
Library Equipment and Replacement		Total Nonmajor Governmental Funds
\$ -	\$	18,710
54		6,093
54		24,803
-		2,210
-		10,618
-		83
-		4,541
-		15,242
-		17,452
54		7,351
2,000		88,477
-		(24,738)
2,000		63,739
2,054		71,090
-		133,738
<b>\$ 2,054</b>	<b>\$</b>	<b>204,828</b>





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July 18, 2006

Honorable Mayor and  
Members of the City Council  
City of Memphis  
35095 Potter Street  
Memphis, MI 48041

Dear Mayor and Members of the City Council:

We recently completed our audit of the basic financial statements of the City of Memphis for the year ended June 30, 2006. In addition to the financial report, we have the following comments and recommendations for your review and consideration.

### **OVERVIEW OF GENERAL FUND FINANCIAL CONDITION**

During the year ended June 30, 2006, the City's General Fund revenues exceeded expenditures by approximately \$47,600. As a result, fund balance at June 30, 2006, increased to approximately \$346,000, of which approximately \$343,000 is unreserved and undesignated.

While the current year's operating results are positive, the City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, are characteristics of the City and its physical framework. The maintenance of an adequate level of working capital is essential to the City's ability to meet financial challenges without affecting the level of services provided to citizens or the ability to fund future obligations.

### **STATE SHARED REVENUE**

As you are aware, the continuing budgetary challenges faced by the State impact the City through its revenue sharing payments, which are the third largest revenue source for the General Fund by itself and the second largest revenue source for the governmental activities as a whole. While the drastic declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the state's revenue structure. At this time, revenue sharing payments for fiscal year 2007 are anticipated to be just slightly above the 2006 levels.

It is important to recognize that the legislative authority for the statutory portion of revenue sharing runs out at September 30, 2007. This portion represents approximately \$37,000 of the City's \$115,000 distribution in 2006. We have not heard any significant discussion in Lansing regarding the plans for renewal at that time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue sharing program.

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## **INTERNAL CONTROL MATTERS**

Designing and maintaining a sound system of internal controls over the City's assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of the City's process of continuous improvement, we bring the following internal control matters to your attention for consideration:

Bank Reconciliations - Sound internal controls dictate that bank account reconciliations be prepared on a timely basis for all cash accounts. Bank account reconciliations are one of the most important aspects of the internal control environment for the safeguarding of assets and timely identification and correction of errors in the financial records. During the course of our audit, we noted instances in which bank reconciliations performed for the General Fund checking and Treasurer's tax accounts did not fully reconcile to the general ledger, as was also noted in the prior year.

Segregation of Duties – When job responsibilities are properly segregated and there is a system of supervisory review of work performed, the risk of intentional or unintentional error or omission in the accounting records is reduced. To the extent one individual is not involved to a significant degree with the majority of duties in any given area, a system of "checks and balances" is created. Proper segregation can be very challenging in a small office setting; however, there are certain key duties that should be separated. For instance, we noted that the same person who prepares the bank reconciliations has access to the cash accounts and the general ledger for the City. Although the bank reconciliations are reviewed by someone else after they are prepared, we would recommend that someone other than the individual preparing the bank reconciliation should receive, open, and review the bank statements before the accounts are reconciled. We further recommend that bank reconciliations be initialed and dated by both the preparer and reviewer as evidence of the review performed in order to further strengthen your controls in this area.

We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation extended to us throughout this audit. We would be happy to answer any questions you have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**



Christina M. Kostiuk



Lisa C. Manetta